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Opening Statement of Sen. Chuck Grassley
Senate Finance Committee Hearing
“Medicare Payment for Physician Services: Examining New Approaches”
Thursday, March 1, 2007

Medicare physician payment reform is one of the most important issues before Congress. I’m pleased that we have the Chairman of the Medicare Payment Advisory Commission, Glenn Hackbarth, here to testify on the commission’s important report on the Sustainable Growth Rate. I am also looking forward to the testimony of our other distinguished witnesses who will give us their views on alternatives to the Sustainable Growth Rate, better known as the SGR.

The SGR attempts to control physician spending and determine the annual physician payment update through spending targets. But the SGR formula is fundamentally flawed and doesn’t work the way it was intended.

Without congressional action this year, physicians are now scheduled under the SGR to receive a roughly ten percent payment cut in 2008 and additional 5 percent cuts for at least the next several years. Physician payment rates could decline by a total of 25 percent or more during this period. One of the key questions we need to examine today is how to improve value in Medicare while also controlling spending. We need to move ahead with changes in Medicare designed to reward higher quality and more efficient care.

The current SGR system is not designed to do this. I have two points to make about this. First, Medicare rewards overutilization and inefficiency. It doesn’t reward physicians who restrain growth in their services and spend less. And it doesn’t deter physicians who prescribe services that aren’t necessary. Instead, just the opposite happens. Those who order more tests and visits get paid more by Medicare than those who provide efficient, lower-cost care.

Second, Medicare often rewards poor quality. In other areas of our economy, you get what you pay for. And often the more you spend, the better the quality you get. But Medicare spending has little bearing on quality. Physicians who provide high quality care are not rewarded financially. And those who have to treat their patients for longer periods of time get paid more. Or if there is an avoidable complication you get paid more. Of course, most physicians care deeply about the quality of care they provide to their patients. But the Medicare physician payment system doesn’t have the right

incentives that would foster improvements in quality and more efficient care. One good example of this is the fact that Medicare does not provide any financial incentives to invest in information technology. Rewarding higher quality care would do that.

We need to change this equation and identify better ways for Medicare to measure and reward quality. Chairman Baucus and I have been working together to realign incentives in Medicare for some time now. We developed and introduced the Medicare Value Purchasing Act in 2005 which would move the Medicare payment system toward better quality care by gradually extending pay for performance incentives to all providers. I look forward to working with you, Mr. Chairman, to reintroduce that legislation later this year.

The Tax Relief and Health Care Act signed into law in December includes a number of provisions to improve the Medicare program. It takes a critical first step toward improving physicians' quality of care by establishing a voluntary Physician Quality Reporting Program, or PQRI, as it is now known. This program -- the first of its kind for physicians and other eligible professionals -- establishes a 1.5 percent bonus payment for those who report specific, consensus-based, quality measures to the Centers for Medicare and Medicaid Services from July through December of this year.

Today, we begin addressing the challenge of developing a long term solution to the physician payment formula. We must ensure that physicians and other health care providers can afford to practice medicine and deliver health care wherever they are located. We must preserve Medicare beneficiaries' access to physicians. We must provide incentives for more efficient and better quality care. And we must endeavor to reform Medicare payments in a bipartisan manner and fiscally responsible way. We must ensure that physicians do not continue to face the possibility of receiving drastic cuts in their Medicare reimbursement each year, and we must stabilize physician payments in the future. Providing short-term updates for physician payments ultimately just makes the problem worse. I recognize that this is a tall order for us to fill so I'm very pleased that we have these noted experts and stakeholders with us today as we begin to move forward and examine the alternatives in the MedPAC Report.